# Dear Clients and Friends of the Firm:

Another year is about to come to a close and again we find ourselves anticipating several tax law changes. We have listed below some items we think will be most relevant to our clients. We encourage you to read through what follows and contact our office if you have any questions regarding planning for 2014.

Although the start of the upcoming 2014 tax filing season will be delayed by several weeks due to the federal government shutdown earlier in the year, 2013 tax return deadlines will NOT be postponed.

**FEDERAL CHANGES AND FORECASTS**

The standard deduction for 2014 will be $6,200 for individuals filing single and $12,400 for individuals filing joint.

Phase-outs for your personal exemptions and itemized deductions are back. Exemptions and itemized deductions will be completely phased-out when adjusted gross income reaches $254,200 for individuals and $305,050 for taxpayers married filing jointly.

The capital gains rate will be 20% for taxpayers in the top income tax bracket, 15% for taxpayers in the middle tax brackets and 0% for those in the 10% and 15% brackets.

The exemption amount for Alternative Minimum Tax is permanently indexed for inflation. For tax year 2014, the exemption amounts are $52,800 for individuals and $82,100 for married filing joint.

The estate and gift tax exclusion amount is indexed for inflation (exclusion amount will be $5.34 million for the 2014 tax year). The portability election was made permanent. The top tax rate remains at 40%, effective January 1, 2013 and going forward.

There will no longer be an exclusion from income for cancellation of indebtedness due to debt forgiven on a qualified principal residence. The cancelled debt will be included in gross income again in 2014.

Several tax credits that were due to expire at the end of 2012 were extended through 2013 and 2014! They include: the American Opportunity Tax Credit, the Earned Income Credit, and the Child Tax Credit. The Research and Development credit was extended through 2013 and made retroactive for 2012. However, this credit is due to expire for the 2014 tax year.

Several business taxes that had been extended through 2013 include: increased expensing amounts under Sec. 179 ($500,000 with a $2 million phase-out), additional 50% bonus depreciation, and 15 year cost recovery for qualified leasehold improvements. If Congress fails to extend the increased limits for tax years 2014 and later: Sec. 179 will revert to $25,000, bonus depreciation will expire, and qualified leasehold improvements will revert to 39 year property.

In September of 2013, the Internal Revenue Service and the U.S. Treasury issued final capitalization regulations for business taxpayers. These regulations address the proper capitalization and tax treatment of expenditures related to tangible property acquisitions, improvements, and repairs and maintenance.

The regulations provide a de minimis safe harbor election that allows the taxpayer to elect NOT to capitalize specified amounts depending on whether the taxpayer has written accounting policies in place by January 1, 2014. If the taxpayer has a written accounting policy in place for capitalization and has applicable financial statements (generally defined as audited financial statements or financial statements required to be provided to any federal or state government or agency), the taxpayer can elect to expense items as high as $5,000. If the taxpayer has a written accounting policy but does not have applicable financial statements, the amount is reduced to $500. Finally, if the taxpayer has neither a written accounting policy nor applicable financial statements, the amount is further reduced to $200 (formerly $100). These regulations apply to tax years beginning on or after January 1, 2014. It is important to note that in order to use the safe harbor, a business must have a written accounting policy in place on the first day of the tax year and the election must be made on a timely filed tax return (including extensions).

As a reminder, with the passage of the Patient Protection and Affordable Care Act, the following taxes were imposed in 2013 and for tax years going forward:

- Hospital Insurance Tax - the employee portion hospital insurance tax part of FICA which is normally 1.45% of covered wages is increase by 0.9% on wages that exceed $200,000 for individuals and $250,000 for married filing joint.

- Net Investment Income Tax - a 3.8% additional income tax on investment income will be applied to the lesser of the taxpayer's net investment income (includes interest, dividends, capital gains, annuities, royalties, and other passive income. Excludes tax free interest and distributions from retirement plans) or the excess Modified AGI above the limits ($200,000 for individuals and $250,000 for joint). Modified AGI is AGI plus tax free foreign income.

- Healthcare expenses will be deductible to the extent that they exceed 10% of AGI. For 2014, this only impacts those under age 65. For those over 65, the threshold is 7.5%. In 2017, the change will impact those over 65.

**BEGINNING IN 2014:**

- Employers with more than 50 full-time equivalent employees will face tax penalties if they fail to provide affordable health coverage for their employees.

- Individuals who fail to purchase health coverage can be subject to a penalty.  Some taxpayers will be allowed an advanceable and refundable credit to help subsidize the purchase of health insurance. To qualify, the taxpayer must have "household income" of at least 100%, but not more than 400%, of the federal poverty line. (The 2013 poverty line is $11,490 plus $4,020 for each additional family member. The 2014 poverty levels have not yet been released.)

As always, we are here to help you and would be happy to address any questions on these topics or any others you may have. (Murrieta 951-445-4700 / San Diego 619-237-3400)

Warmest regards,

***Swenson Advisors, LLP***